

## Rating update for IL&FS Transportation Networks Ltd (ITNL)

Our exposure to IL&FS Transportation Networks Ltd (ITNL) bonds are backed by parent support from IL&FS Ltd. Based on the parent support, our exposure was rated at AAA(SO) by CARE (at same level of rating as IL&FS Ltd.) at the time of investment.

On September 9, 2018, CARE has downgraded the rating of IL&FS Ltd. to BB from AA+ on account of liquidity pressure at the group level. On September 10, 2018, it has also downgraded the rating of our security from AA+(SO) to BB(SO), in line with that of IL&FS Ltd.

### Why the downgrade?

The rating has been downgraded due to high leverage on account of support towards group entities and liquidity mismatches. Delays in receipts of dues and claims of around ₹16,000 crore from various Government agencies, and some delays in monetization of assets led to high debt in the group.

### Our assessment of the situation

We are in constant touch with the management and based on our discussions, understand that the following steps are being taken to tide over the situation –

- The board of IL&FS Ltd. has approved rights issue of ₹4,500 crore at attractive valuation for existing shareholders on August 29, 2018. The rights issue will be completed by October 30, 2018
- IL&FS Ltd. has also approached its shareholders for immediate access to credit lines of ₹3,000 crore. The total liquidity expected from the shareholders is around ₹ 10,000 crore
- Once the company has access to capital through rights issue and credit lines from shareholders, it will improve liquidity within the group, and also reopen access to loan and debt markets for the group
- The board has also approved an asset monetization plan that has identified 25 projects for sale. We understand that the group has already received firm offers for a few of them, and the asset monetization will lead to sharp debt reduction at group level
- The group has strong institutional shareholders like LIC (25%), Orix Corporation of Japan (24%), ADIA (13%), HDFC (9%) and SBI (6%). These marquee investors provide comfort that the group will be able to raise adequate support

### Our exposure to the issuer –

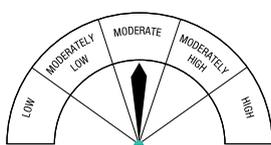
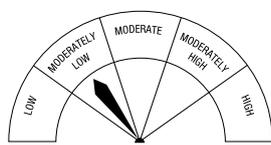
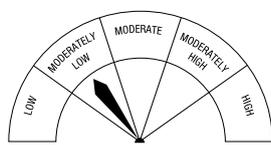
Issuer	Exposure (Rs. Crore)	Maturity Date
IL&FS Transportation Networks Limited (backed by parent support of IL&FS Ltd.)	375	Mar, 2019

Our belief is that once the equity infusion from rights issue and the credit lines from shareholders help the group tide over liquidity issues, the position of the group will improve significantly as it monetizes assets over the next few months. Therefore, we believe that IL&FS Ltd. would be in a position to service its obligations which are due in March, 2019.

## Valuation impact

The value of the security has been marked down by 25% on September 10, 2018 to reflect the rating action in the books of accounts, which is in accordance with the principles of fair valuation as per applicable regulations. We have exposure to the security in DSP Credit Risk Fund (3.21%), DSP Ultra Short Fund (1.48%) and DSP Bond Fund (1.89%), in addition to some hybrid funds and FMP. The markdown has resulted in an impact of 0.82%, 0.37% and 0.47% in the NAV dated September 10, 2018 for DSP Credit Risk Fund, DSP Ultra Short Fund and DSP Bond Fund respectively.

### Product Labelling:

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<p><b>DSP Credit Risk Fund</b> (An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds). This Scheme is suitable for investor who are seeking*</p> <ul style="list-style-type: none"> <li>Income over a medium-term to long term investment horizon</li> <li>Investment predominantly in corporate bonds which are AA and below rated instruments</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><b>DSP Bond Fund</b> (An open ended medium term debt scheme investing in debt and money market securities such that the Macaulay duration of the portfolio is between 3 years and 4 years (please refer page no. 32 under the section "Where will the Scheme invest" in the SID for details on Macaulay's Duration) This Scheme is suitable for investor who are seeking*</p> <ul style="list-style-type: none"> <li>Income over a medium-term investment horizon</li> <li>Investment in money market and debt securities</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><b>DSP Ultra Short Fund</b> (An open ended ultra-short term debt scheme investing in debt and money market securities such that the Macaulay duration of the portfolio is between 3 months and 6 months (please refer page no. 19 under the section "Where will the Scheme invest?" in the SID for details on Macaulay's Duration) This Scheme is suitable for investor who are seeking*</p> <ul style="list-style-type: none"> <li>Income over a short-term investment horizon.</li> <li>Investments in money market and debt securities</li> </ul>	 <p>Investors understand that their principal will be at moderately low risk</p>

\*Investors should consult their financial/tax advisors if in doubt about whether the product is suitable for them.

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**The strategy mentioned in the document is currently followed by the Schemes and the same may change in future depending on market conditions and other factors.** All figures and other data given in this document are dated and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by DSP Investment Managers Pvt. Ltd. or its affiliates.

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**The portfolio of the Schemes is subject to changes within the provisions of the Scheme Information Document (SID) of the schemes.** For scheme specific risk factors, asset allocation and more details, please read the SID, Statement of Additional Information and Key Information Memorandum of the schemes available on ISC of AMC and also available on [www.dspim.com](http://www.dspim.com).

**Mutual Fund investments are subject to market risks, read all scheme related document carefully.**